

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2006**

## **Description of the Office of the State Auditor**

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

**Year Ended December 31, 2006**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2006

Board

Steve Raukar, Chair  
Bill Kron  
Keith Nelson  
Peg Sweeney, Alternate  
Clair Nelson, Vice Chair  
Willard Clark  
Rick Goutermont, Alternate

Representing

St. Louis County  
St. Louis County  
St. Louis County  
St. Louis County  
Lake County  
Lake County  
Lake County

Executive Director

Robert Manzoline

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
St. Louis and Lake Counties  
Regional Railroad Authority

We have audited the accompanying financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The St. Louis and Lake Counties Regional Railroad Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2007, on our consideration of the St. Louis and Lake Counties Regional Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 24, 2007

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **BASIC FINANCIAL STATEMENTS**

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 877,316	\$ -	\$ 877,316
Taxes receivable - delinquent	44,051	-	44,051
Due from other governments	187,704	-	187,704
Capital assets			
Non-depreciable	-	111,211	111,211
Depreciable - net of accumulated depreciation	-	7,068,705	7,068,705
<b>Total Assets</b>	<b>\$ 1,109,071</b>	<b>\$ 7,179,916</b>	<b>\$ 8,288,987</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 100,303	\$ -	\$ 100,303
Salaries payable	2,782	-	2,782
Deferred revenue - unavailable	235,445	(235,445)	-
Deferred revenue - unearned	14,548	-	14,548
Long-term liabilities			
Due within one year	-	4,713	4,713
<b>Total Liabilities</b>	<b>\$ 353,078</b>	<b>\$ (230,732)</b>	<b>\$ 122,346</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Unreserved			
Designated for future trail maintenance	\$ 196,138	\$ (196,138)	
Undesignated	559,855	(559,855)	
<b>Total Fund Balance</b>	<b>\$ 755,993</b>	<b>\$ (755,993)</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,109,071</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 7,179,916	\$ 7,179,916
Unrestricted		986,725	986,725
<b>Total Net Assets</b>		<b>\$ 8,166,641</b>	<b>\$ 8,166,641</b>

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2006**

**Reconciliation of the General Fund Balance to Net Assets**

<b>Fund Balance - General Fund</b>	<b>\$ 755,993</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	7,179,916
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	235,445
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(4,713)
<b>Net Assets - Governmental Activities</b>	<b><u>\$ 8,166,641</u></b>

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<b>Revenues</b>			
Taxes	\$ 892,072	\$ 11,386	\$ 903,458
Intergovernmental	412,512	144,836	557,348
Charges for services	56,022	-	56,022
Miscellaneous	26,989	-	26,989
	<b>\$ 1,387,595</b>	<b>\$ 156,222</b>	<b>\$ 1,543,817</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Administration	\$ 987,262	\$ (6,927)	\$ 980,335
Depreciation	-	184,500	184,500
<b>Capital outlay</b>	518,459	(518,459)	-
	<b>\$ 1,505,721</b>	<b>\$ (340,886)</b>	<b>\$ 1,164,835</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (118,126)</b>	<b>\$ 497,108</b>	<b>\$ 378,982</b>
<b>Fund Balance/Net Assets - January 1 (Restated, Note 1.E.)</b>	<b>874,119</b>	<b>6,913,540</b>	<b>7,787,659</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 755,993</b>	<b>\$ 7,410,648</b>	<b>\$ 8,166,641</b>

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

**EXHIBIT 2  
(Continued)**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Reconciliation of the Statement of General Fund Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities**

**Net Change in Fund Balance** **\$ (118,126)**

In the General Fund, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the General Fund and the governmental activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 235,445	
Deferred revenue - January 1	(79,223)	156,222

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 518,459	
Current year depreciation	(184,500)	333,959

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of. (5,600)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Changes in compensated absences		12,527
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**Change in Net Assets of Governmental Activities** **\$ 378,982**

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Taxes</b>	\$ 1,050,303	\$ 1,050,303	\$ 892,072	\$ (158,231)
<b>Intergovernmental</b>				
State				
Market value credit	\$ 109,247	\$ 109,247	\$ 109,247	\$ -
LCMR	-	-	50,862	50,862
Other	-	-	68,524	68,524
Local				
Other local grants	43,500	43,500	183,879	140,379
<b>Total intergovernmental</b>	\$ 152,747	\$ 152,747	\$ 412,512	\$ 259,765
<b>Charges for services</b>	\$ 50,000	\$ 50,000	\$ 56,022	\$ 6,022
<b>Miscellaneous</b>	\$ 22,000	\$ 22,000	\$ 26,989	\$ 4,989
<b>Total Revenues</b>	\$ 1,275,050	\$ 1,275,050	\$ 1,387,595	\$ 112,545
<b>Expenditures</b>				
<b>Current</b>				
Economic development	\$ 975,050	\$ 975,050	\$ 987,262	\$ (12,212)
<b>Capital outlay</b>	600,000	600,000	518,459	81,541
<b>Total Expenditures</b>	\$ 1,575,050	\$ 1,575,050	\$ 1,505,721	\$ 69,329
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ (300,000)	\$ (300,000)	\$ (118,126)	\$ 181,874
<b>Fund Balance - January 1</b>	874,119	874,119	874,119	-
<b>Fund Balance - December 31</b>	\$ 574,119	\$ 574,119	\$ 755,993	\$ 181,874

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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1. Summary of Significant Accounting Policies

The St. Louis and Lake Counties Regional Railroad Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the St. Louis and Lake Counties Regional Railroad Authority are discussed below.

A. Financial Reporting Entity

The St. Louis and Lake Counties Regional Railroad Authority was established July 14, 1986, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. It is governed by a Board composed of three members from the St. Louis County Board of Commissioners and two members from the Lake County Board of Commissioners. Both counties also appoint an alternate member. Its purpose is to operate a scenic tourist excursion railway in Northeastern Minnesota and create a paved multi-purpose trail along abandoned rail lines, where possible, which will enable users to access one community from another. The Board is organized with a chair, a vice chair, and secretary-treasurer elected each year.

St. Louis County, as fiscal agent, reports the transactions of the Authority in an agency fund on its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on the Authority's activities as a whole and information on the individual fund of the Authority. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the Exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Authority as a whole.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts: invested in capital assets and unrestricted net assets. The Statement of Activities demonstrates the degree to which the expenses of the Authority are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Authority considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.



**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The Authority adopts estimated revenue and expenditure budgets for the General Fund on a basis consistent with generally accepted accounting principles. The budget can be amended during the year by the Authority's Board. No budget amendments were made in 2006 that affected the revenue or expenditure total budget amounts.

E. Restatement

During 2006, the Authority determined it had incorrectly reported certain revenues as earned in 2005. Also, the Authority determined that capital expenditures in 2005 were expensed instead of capitalized. The effect on the beginning balances of governmental activities' net assets, General Fund fund balance, and capital assets are:

	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Capital Assets</u>
Balances			
December 31, 2005, as previously reported	\$ 7,661,060	\$ 965,292	\$ 6,633,785
Correction to revenue	(91,173)	(91,173)	-
Capitalizing capital expenditures	<u>217,772</u>	<u>-</u>	<u>217,772</u>
January 1, 2006, as restated	<u>\$ 7,787,659</u>	<u>\$ 874,119</u>	<u>\$ 6,851,557</u>

F. Assets, Liabilities, and Net Assets or Equity

1. Taxes Receivable

Taxes receivable consist of uncollected taxes payable in the years 2000 to 2006. Taxes receivable are offset by deferred revenue for the amount not collected within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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1. Summary of Significant Accounting Policies

F. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, paved trails, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the St. Louis and Lake Counties Regional Railroad Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 70
Building improvements	10 - 20
Furniture, equipment, and vehicles	3 - 15

3. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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1. Summary of Significant Accounting Policies

F. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority to deposit its cash and to invest in certificates of deposit in financial institutions designated by the St. Louis County Board of Commissioners and the Authority's Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04-.05 authorize the types of securities available to the Authority for investment.

The Authority deposits all its cash with its fiscal agent, St. Louis County. Additional disclosures, as required by GASB Statement No. 40, *Deposits and Investment Risk Disclosure*; and Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed in the St. Louis County Comprehensive Annual Financial Report.

2. Receivables

Receivables as of December 31, 2006, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Due from other governments	\$ 187,704
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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2006, was as follows:

	Restated (Note 1.E.) Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 100,185	\$ 11,026	\$ -	\$ 111,211
Capital assets depreciated				
Infrastructure	\$ 8,017,772	\$ 507,433	\$ -	\$ 8,525,205
Machinery, furniture, and equipment	113,000	-	8,000	105,000
Total capital assets depreciated	\$ 8,130,772	\$ 507,433	\$ 8,000	\$ 8,630,205
Less: accumulated depreciation for				
Infrastructure	\$ 1,345,000	\$ 182,500	\$ -	\$ 1,527,500
Machinery, furniture, and equipment	34,400	2,000	2,400	34,000
Total accumulated depreciation	\$ 1,379,400	\$ 184,500	\$ 2,400	\$ 1,561,500
Total capital assets depreciated, net	\$ 6,751,372	\$ 322,933	\$ 5,600	\$ 7,068,705
Capital Assets, Net	\$ 6,851,557	\$ 333,959	\$ 5,600	\$ 7,179,916

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	\$ 184,500

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2006, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	\$	100,303
Salaries		<u>2,782</u>
Total Payables	\$	<u>103,085</u>

2. Deferred Revenue

St. Louis and Lake Counties Regional Railroad Authority's fund and the government-wide financial statements defer revenue for resources that have been received but not yet earned. The governmental fund also reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

3. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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2. Detailed Notes

B. Liabilities

3. Compensated Absences (Continued)

The following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2006:

Payable - January 1	\$ 17,240
Net increase (decrease)	<u>(12,527)</u>
Payable - December 31	<u><u>\$ 4,713</u></u>

Under the St. Louis and Lake Counties Regional Railroad Authority's personnel policies and union contracts, its employees are granted vacation and sick leave in varying amounts based on length of service. Vacation leave accrual is 10 to 15 days per year. Sick leave accrual is 13 days per year.

Unused, accumulated vacation is paid to employees upon termination. The current portion of unused vacation is recognized as a current liability in the government-wide Statement of Net Assets. Unvested sick leave of \$46,327 at December 31, 2006, is available to employees in the event of illness-related absences and is not paid to them at termination.

4. Risk Management

The St. Louis and Lake Counties Regional Railroad Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Authority maintains commercial insurance policies to address these risks of loss, either by purchasing the policies directly from commercial insurers or by contractual commitments from third parties to name the Authority as an additional insured on policies of commercial liability insurance maintained by the contracting parties. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the St. Louis and Lake Counties Regional Railroad Authority are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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3. Pension Plans

A. Plan Description (Continued)

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Authority is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25



**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

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3. Pension Plans

B. Funding Policy (Continued)

The Authority's contributions for the years ending December 31, 2006, 2005, and 2004, were \$7,686, \$7,010, and \$6,713, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Subsequent Events

A. Lakefront Line Railroad Bridge Replacement and Repair

The St. Louis and Lake Counties Regional Railroad Authority elected to replace and repair two bridges on the Lakefront Line Railroad. In 2006, one bridge was completed and the construction of the other bridge will begin in 2008. Payment for this work will be carried over a three-year period of time at a cost of approximately \$900,000, of which approximately \$300,000 remains. A tax levy increase in the amount of \$300,000 per year was approved to pay for these construction costs.

B. Mesabi Trail

The St. Louis and Lake Counties Regional Railroad Authority received approval to advertise for bids for the Scenic 7 to Marble segment of the Mesabi Trail project. Construction costs are estimated at approximately \$400,000. Construction is to begin in late 2007 or early 2008.

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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

03-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the St. Louis and Lake Counties Regional Railroad Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that staff from the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the St. Louis and Lake Counties Regional Railroad Authority. This decision was based on the availability of the Authority's staff and the cost benefit of using this expertise.

During our audit, we proposed material adjustments to convert the Authority's financial records to the financial statements as reported. These included audit adjustments not booked from the prior audit and restatement of fund balance/net assets for prior period over accrual of revenue and capital expenditures not recognized as additions to capital assets.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*Regional Railroad Authority management is aware that due to limited staff, segregation of accounting, financial records, cash transactions and other duties is not adequate from an internal control point of view. Railroad Authority has and will continue to use St. Louis County Auditor's Office for general accounting services and all payments made by way of voucher and check issued through Auditor's Office. Rail Authority does not have "petty cash" or other cash related transactions. Rail Authority does collect cash from Mesabi Trail Passes sold by Licensed Trail Vendors and self-pay boxes located along the Mesabi Trail. Cash collected is deposited with St. Louis County Auditor's Office. Management has collection procedures in place, oversees cash collections, and monitors deposits along with monthly and yearly reporting systems.*

*Rail Authority management is aware and responsible for all financial records. St. Louis County prepares expenditure and budget reports reviewed and approved by the Board of Directors on a monthly and yearly basis. Annual audits are conducted by the State of Minnesota Auditor's Office.*

*Management will make the Board of Directors aware of the risk involved with limited staff oversight of Rail Authority assets. When needed, management will recommend implementation of new or revised oversight procedures and respond to directives from the Board.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
St. Louis and Lake Counties  
Regional Railroad Authority

We have audited the financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2006, and have issued our report thereon dated December 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Louis and Lake Counties Regional Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely effects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 03-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Louis and Lake Counties Regional Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories except that we did not test for contracting and bidding, because no contracts required testing and public indebtedness because the Authority did not issue any debt.



The results of our tests indicate that, for the items tested, St. Louis and Lake Counties Regional Railroad Authority complied with the material terms and conditions of applicable legal provisions.

The Authority's written response to the material weakness identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the St. Louis and Lake Counties Regional Railroad Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 24, 2007